

**EAST BOSTON NEIGHBORHOOD HEALTH CENTER
CORPORATION AND AFFILIATE**

A-133 FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

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Feeley & Driscoll, P.C.

Certified Public Accountants / Business Consultants

To the Board of Directors
East Boston Neighborhood Health Center Corporation and Affiliate
East Boston, Massachusetts

Independent Auditors' Report

We have audited the accompanying consolidated balance sheets of East Boston Neighborhood Health Center Corporation and Affiliate (the "Organization") as of September 30, 2012 and 2011, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of East Boston Neighborhood Health Center Corporation and Affiliate as of September 30, 2012 and 2011, and the results of their operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2013 on our consideration of East Boston Neighborhood Health Center Corporation and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information, as described in the table of contents, is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Boston, Massachusetts
January 9, 2013

Feeley & Discoll, P.C.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Consolidated Balance Sheets

September 30, 2012 and 2011

Assets	Liabilities and Net Assets	
	2012	2011
Current assets:		
Cash and cash equivalents	\$ 5,707,453	\$ 6,233,458
Patient accounts receivable, net	3,791,308	3,423,510
Grants and contracts receivable	412,879	1,656,119
Other accounts receivable	3,093,568	3,563,138
Prepaid expenses and other current assets	1,458,542	1,264,053
Inventory	678,146	668,671
Total current assets	15,141,896	16,808,949
Assets whose use is limited or restricted:		
Program deposits	110,376	109,411
Donor restricted funds	510,815	749,680
Trustee held funds	610,400	-
Total assets whose use is limited or restricted	1,231,591	859,091
Property and equipment, net	36,679,877	24,322,018
Other assets:		
Deferred financing costs, net of accumulated amortization of \$111,040 and \$82,564	1,678,564	139,243
Cash surrender value	999,783	899,444
Note receivable, related party	162,016	174,544
Note receivable, investment fund	15,990,392	-
Investment in Sturgis Street	212,613	174,189
Deposits	6,250	13,100
Total other assets	19,049,618	1,400,520
Total assets	\$ 72,102,982	\$ 43,390,578
Current liabilities:		
Current portion of long-term debt	\$ 604,797	\$ 332,509
Accounts payable and accrued expenses	6,044,825	5,749,072
Accrued salaries and wages	5,330,114	4,676,896
Deferred revenue	334,286	970,665
Due to third parties	461,507	2,207,481
Other current liabilities	157,473	157,473
Total current liabilities	12,933,002	14,094,096
Long-term liabilities:		
Long-term debt, net of current portion	38,077,608	8,244,534
Due to third parties, net of current portion	319,942	319,942
Interest rate swap	999,316	969,608
Post retirement benefit obligations	280,000	211,000
Total long-term liabilities	39,676,866	9,745,084
Total liabilities	52,609,868	23,839,180
Commitments and contingencies		
Net assets:		
Unrestricted net assets	18,982,299	18,801,718
Temporarily restricted net assets	510,815	749,680
Total net assets	19,493,114	19,551,398
Total liabilities and net assets	\$ 72,102,982	\$ 43,390,578

See accompanying notes to consolidated financial statements.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Consolidated Statements of Operations

For the years ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenue and other support:		
Net patient service revenue, net of provision for bad debt of \$4,195,809 and \$ 4,157,719 for 2012 and 2011, respectively	\$ 45,764,862	\$ 42,074,491
Health Center premium revenue	2,687,689	2,135,166
ESP premium revenue	26,555,002	23,386,213
Grant and contract revenue	14,070,395	14,359,827
Other revenue	2,979,111	3,065,335
Total revenue and other support	<u>92,057,059</u>	<u>85,021,032</u>
Expenses:		
Salaries and wages	47,203,821	43,582,274
Employee benefits	11,973,068	11,720,301
Purchased services	8,194,855	7,140,753
Medical expenses	7,426,636	6,003,071
Occupancy, repairs and maintenance	5,965,023	5,509,506
Institutional	5,161,500	4,749,087
Administrative and general supplies and expense	3,395,783	3,177,801
Depreciation and amortization	2,804,939	2,367,198
Transportation	873,190	745,062
Insurance	547,860	605,644
Interest expense	306,886	316,822
Total expenses	<u>93,853,561</u>	<u>85,917,519</u>
Loss from operations	<u>(1,796,502)</u>	<u>(896,487)</u>
Non-operating gains (losses):		
Interest	15,765	21,801
Gain on sale of property and equipment	387	1,975
Investment income	200,211	34,735
Soil remediation costs, net	9,398	(194,861)
Total non-operating gains (losses)	<u>225,761</u>	<u>(136,350)</u>
Deficit of revenue, other support and gains over expenses and losses	(1,570,741)	(1,032,837)
Loss on interest rate swap	(29,708)	(41,965)
Grant revenue for capital expenditures	<u>1,781,030</u>	<u>9,069,969</u>
Change in unrestricted net assets	<u>\$ 180,581</u>	<u>\$ 7,995,167</u>

See accompanying notes to consolidated financial statements.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Consolidated Statements of Changes in Net Assets

For the years ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted net assets:		
Deficit of revenue, other support and gains over expenses and losses	\$ (1,570,741)	\$ (1,032,837)
Loss on interest rate swap	(29,708)	(41,965)
Grant revenue for capital expenditures	<u>1,781,030</u>	<u>9,069,969</u>
Change in unrestricted net assets	<u>180,581</u>	<u>7,995,167</u>
Temporarily restricted net assets:		
Contributions and grants	10,135	749,680
Net assets released from restrictions	<u>(249,000)</u>	<u>-</u>
Change in temporarily restricted net assets	<u>(238,865)</u>	<u>749,680</u>
Change in net assets	(58,284)	8,744,847
Net assets, beginning of year	<u>19,551,398</u>	<u>10,806,551</u>
Net assets, end of year	<u>\$ 19,493,114</u>	<u>\$ 19,551,398</u>

See accompanying notes to consolidated financial statements.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Consolidated Statements of Cash Flows

For the years ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ (58,284)	\$ 8,744,847
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Donor restricted funds	(10,135)	(749,680)
Depreciation and amortization	2,804,939	2,367,198
Provision for uncollectible accounts	4,195,809	4,157,719
Equity earnings in joint venture	(38,424)	(24,303)
(Increase) decrease in cash surrender value of life insurance	(100,339)	24,014
Gain on sale of property and equipment	(387)	(1,973)
Loss on interest rate swap	29,708	41,965
Restricted grant revenue for capital expenditures	(1,781,030)	(9,069,969)
Increase (decrease) in cash resulting from a change in:		
Patient accounts receivable	(4,563,607)	(4,595,328)
ESP accounts receivable	-	506,331
Grants and contracts receivable	1,243,240	(953,116)
Other accounts receivable	469,570	(1,916,804)
Prepaid expenses and other current assets	(194,489)	(65,916)
Inventory	(9,475)	(282,329)
Accounts payable and accrued expenses	(467,584)	227,795
Deferred revenue	(636,379)	506,458
Accrued salaries and wages	653,218	608,375
Due to third parties	(1,745,974)	(320,842)
Post retirement benefit obligations	69,000	211,000
Net cash used in operating activities	<u>(140,623)</u>	<u>(584,558)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(14,399,461)	(9,883,157)
Proceeds from sale of equipment	387	34,404
Funding of assets whose use is limited or restricted	(372,500)	(750,008)
(Funding of) payment on note receivable, related party	(15,977,864)	11,824
Proceeds from (payments of) deposits	6,850	(7,707)
Net cash used in investing activities	<u>(30,742,588)</u>	<u>(10,594,644)</u>
Cash flows from financing activities:		
Restricted grant revenue for capital expenditures	1,781,030	7,778,850
(Payment of) proceeds from deferred financing costs	(1,539,321)	14,787
Proceeds from long-term debt	30,105,362	2,022,916
Donor restricted funds	10,135	749,680
Net cash provided by financing activities	<u>30,357,206</u>	<u>10,566,233</u>
Net decrease in cash and cash equivalents	(526,005)	(612,969)
Cash and cash equivalents, beginning of year	<u>6,233,458</u>	<u>6,846,427</u>
Cash and cash equivalents, end of year	<u>\$ 5,707,453</u>	<u>\$ 6,233,458</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 306,886</u>	<u>\$ 316,822</u>
Acquisition of property and equipment accrued in accounts payable or through notes payable	<u>\$ 763,337</u>	<u>\$ 2,037,841</u>

See accompanying notes to consolidated financial statements.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Note 1 - Organization

East Boston Neighborhood Health Center Corporation and Affiliate (the "Organization") is a not-for-profit corporation organized in September 1974. The Organization's mission is to safely and effectively provide easily accessible, personalized, high quality, affordable care that is sensitive to the needs of each individual who lives or works in the East Boston, Massachusetts, community regardless of the ability to pay.

East Boston Neighborhood Health Center ("The Center") provides medical, radiological and laboratory services in a community setting, and develops and promotes research programs aimed at the prevention, detection and treatment of common chronic medical conditions. Reimbursements for services to patients are covered by Medicare, Medicaid, and contracted insurance programs. The Center is also the recipient of federal, state and private grants in support of their services. The Center also participates in a Program of All-inclusive Care for the Elderly ("PACE"), commonly referred to as the Elder Service Plan ("ESP"), which is dually administered by the Medicare and Medicaid programs.

On September 10, 2012, Twenty Maverick Square Corporation ("TMS") became an affiliate of the Center as part of the New Market Tax Credit financing. TMS is a property holding company for the Center. Refer to Note 4 for further detail of the transaction.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - The consolidated financial statements include the accounts of the above-named entities. Significant intercompany balances and transactions have been eliminated.

The Organization's accounts are maintained on the accrual basis of accounting. Net assets are classified into restricted and unrestricted net assets, when appropriate, to properly disclose the nature and amount of significant resources that have been restricted in accordance with specified donor objectives. The Organization has unrestricted net assets, which are available to be used by the board of directors for the general purpose of the Organization and temporarily restricted net assets which are donor or grantor restricted.

Estimates - The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments - The Organization determines the fair value of financial instruments and includes such information in the notes to the financial statements when the fair value is materially different than the carrying amount of these financial instruments.

Cash and Cash Equivalents - Cash and cash equivalents include all highly liquid investments with a maturity of ninety (90) days or less.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies - Continued

Allowance for Doubtful Accounts - An allowance for doubtful accounts is recorded to report patient accounts receivable at the net realizable value. Estimates for doubtful accounts are based on past collection experience together with a review of the current status of the existing receivables.

Inventory - Inventory, including medical and pharmaceutical supplies, is stated at lower of cost or market and is determined based on the first in, first out method.

Assets Whose Use is Limited or Restricted - Assets whose use is limited or restricted includes assets set aside by the board of directors over which the board retains control and may, at its discretion, use for various purposes, assets set aside in accordance with loan agreements and program agreements and assets specified by donors or grantors for specific purposes.

Property and Equipment - Property and equipment are recorded at cost or, if donated, at the fair market value at the date of receipt. Depreciation and amortization are provided using the straight-line method over the estimated useful asset lives.

Deferred Financing Costs - The direct costs incurred in the placement of the Massachusetts Development Finance Agency Revenue Bonds have been capitalized and are being amortized on a straight-line basis, which approximates the effective interest method, over the term of the related bonds.

Investments - The Center has an interest in a joint venture with 26 Sturgis Street Corp. The Center's interest in the joint venture is recorded using the equity method.

Deferred Revenue - Deferred revenue consists of Elder Service Plan Revenue that was received in advanced of being earned and is recorded at the net realizable amount.

Derivative Instruments - As discussed in Note 10, the Center entered into an interest rate swap agreement to ensure consistent cash outflows over the life of the agreement. Generally accepted accounting principles require that derivative instruments be reported at fair value. The change in the fair value of the Center's swap agreement is reported as an other change in net assets in the statement of activities.

Statement of Operations - For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care and related services are reported as revenue and expenses. Peripheral or incidental transactions are reported as non-operating gains and losses.

Net Patient Service Revenue - Net patient service revenue is reported at the estimated realizable amount from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies - Continued

Health Center Premium Revenue - The Center has agreements with various payers whereby the Center receives monthly capitation payments based on the number of participants, regardless of the services actually performed by the Center. This includes payments related to the State's Patient Centered Medical Home Initiative (PCMHI). Also, included is revenue related to a risk sharing arrangement with BMC HealthNet Plan that was established as an alternative to the PCMHI payment arrangement. Settlements related to the Senior Care Options (SCO) program are also included here. All revenues are recorded when earned.

ESP Premium Revenue - The Center has agreements with the Centers for Medicare and Medicaid Services ("CMS") and the Commonwealth of Massachusetts (the "Commonwealth") (under Medicaid) to provide medical services to members of the ESP program. Through these agreements, the Center receives monthly capitation payments based on the number of participants enrolled in the program. All healthcare needs of program participants are the responsibility of the Center. Participation in the program is limited to those frail and elderly in the community deemed eligible for nursing home placement. All revenues are recorded when earned.

Grant and Contract Revenue - Grant and contract revenue are reported in accordance with the provisions of the applicable contract or grant agreement. The majority of the grants and contracts received by the Center are subject to possible audit by the grantor agency or governmental regulatory agency overseeing the contract award.

Charity Care - The Center provides care to patients at no charge, or at amounts less than its established rates, who meet certain criteria under its charity care policy. Because the Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Center does include in revenue its reimbursement from Health Safety Net.

Gifts, Bequests and Contributions - The Center recognizes contributions as revenue in the period received at fair value. Gifts of cash or other support are reported as restricted if they are received with donor stipulations that limit the use of the donated assets. Contributions in the form of property are recorded at the fair market value on the date the property is received. The property is shown as unrestricted support unless explicit donor stipulations specify how the donated property must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, the Center reports expirations of donor restrictions when the donated asset or acquired long-lived assets are placed in service.

Advertising Costs - Advertising costs are expensed as incurred.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies - Continued

Deficit of Revenue, Other Support and Gains Over Expenses and Losses - The consolidated statement of operations includes the deficit of revenue, other support and gains over expenses and losses. Changes in unrestricted net assets which are excluded from the deficit of revenue, other support and gains over expenses and losses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purpose of acquiring such assets) and changes in the fair value of the interest rate swap.

Tax Status - The Organization is incorporated under Section 501(c)(3) of the Internal Revenue Code (the "Code") and, accordingly, is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Organization is classified as a public charity. In accordance with generally accepted accounting principles, the Organization annually evaluates its tax status and tax positions taken with respect to its operations and financial position. Tax years from 2009 through the current year remain open for examination by Federal and state tax authorities.

Subsequent Events - The Organization has evaluated subsequent events through January 9, 2013, which is the date the financial statements were available for issuance.

Adoption of New Accounting Guidance - In July 2011, the Financial Accounting Standards Board issued an Accounting Standards Update ("ASU"), *Health Care Entities: Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts*. Under the new guidance, bad debts relating to patient service revenue will be separately disclosed in the statement of operations and reported as a component of net patient service revenue. Bad debts associated with activities other than patient service revenue will continue to be reported as an operating expense. For the Center, the ASU would be effective for fiscal years beginning after December 15, 2011, but early adoption is permitted.

The Center elected to early adopt the ASU and changed its reporting of the provision for bad debts. Accordingly, certain amounts in the 2011 financial statements have been reclassified to conform with the 2012 presentation. The previously reported provision for bad debts of \$4,157,719 has been reclassified as a reduction to net patient service revenue. The reclassification had no impact on the previously reported deficit of revenue, other support and gains over expenses for 2011.

Reclassifications - Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2012 and 2011

Note 3 - Concentration of Credit Risk

The Center grants credit, without collateral, to its patients, many of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and others was as follows at September 30:

	<u>2012</u>	<u>%</u>	<u>2011</u>	<u>%</u>
Self-pay	\$ 2,736,157	40%	\$ 2,975,275	47%
Other	2,017,296	30%	1,341,598	21%
Medicaid	1,445,581	21%	1,397,018	22%
Medicare	395,620	6%	461,148	7%
Blue Cross	204,549	3%	180,158	3%
Net accounts receivable	<u>6,799,203</u>	<u>100%</u>	<u>6,355,197</u>	<u>100%</u>
Less allowance for doubtful accounts	<u>3,007,895</u>		<u>2,931,687</u>	
Patient accounts receivable, net of allowance	<u>\$ 3,791,308</u>		<u>\$ 3,423,510</u>	

Management monitors and evaluates the allowance for doubtful accounts to ensure that receivables are stated at their net realizable value. Management believes that the receivable balances from various payors do not represent a concentration of credit risk to the Organization.

The Organization has a potential concentration of credit risk in that it maintains deposits with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The maximum deposit insurance amount is \$250,000 for interest bearing accounts, which is applied per depositor, per insured depository institution for each account ownership category. Non-interest bearing transaction deposits accounts are provided unlimited coverage through December 31, 2012. During 2012, the Organization maintained deposits with a financial institution that is also insured by the Depositors Insurance Fund (DIF). The Organization had approximately \$2,020,962 and \$3,949,308 of deposits in excess of FDIC insurance limits at September 30, 2012 and 2011, respectively.

Note 4 - Note Receivable, Investment Fund

During 2012, the Center, in connection with TMS, entered into a series of transactions to accommodate its participation in the New Market Tax Credit program for the development and financing of a new building. The Center loaned the proceeds of its new bonds (see Note 10) to East Boston Neighborhood Health Center Investment Fund, LLC. ("Investment Fund"). The Investment Fund then invested in the Qualified Low Income Community Investments CDE #1-#4, LLC ("CDE"). The CDE used the investment to provide financing to the TMS in five separate loans, totaling \$22,376,000 (Note 10), for the construction of the new health center building.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2012 and 2011

Note 4 - Note Receivable, Investment Fund - Continued

The note receivable with the Investment Fund is to be repaid, including interest at two and three-quarters percent (2.75%) per annum, through June 2037. The loan is interest only for the first seven years and then amortizes until maturity, at which time all unpaid principal and interest are due. The note receivable balance at September 30, 2012 was \$15,990,392. The permanent financing amount for the development of the new health center building is effectively the difference between the Center bonds, TMS notes payable and the Health Center's note receivable from the Investment Fund.

Note 5 - Third Party Reimbursement

The Center maintains agreements with the Centers for Medicare and Medicaid Services ("CMS") and the Commonwealth (under the Medicaid program) and various commercial insurance carriers, health maintenance organizations and provider organizations. These agreements govern payment to the Center for services rendered to subscribers and beneficiaries covered by these programs.

As a hospital-based Community Health Center, the Center is reimbursed by Medicare under the Outpatient Prospective Payment System ("OPPS"), which establishes payments based on Ambulatory Payment Classification ("APC"), and the Medicare standard physician fee schedule for physician services only. This OPPS system establishes rates of payment based on the services provided to outpatients using acuity codes known as Current Procedural Terminology ("CPT") codes.

The Commonwealth's Medicaid program reimburses for outpatient services on a payment amount per episode ("PAPE") and the Medicaid standard physician fee schedule for physician services only. This system establishes rates of payment based on the services provided to outpatients using acuity codes known as Current Procedural Terminology ("CPT") codes.

The Commonwealth's Division of Healthcare Finance and Policy (the "Division") operates the Health Safety Net ("HSN") to reimburse hospitals and hospital-based providers for the cost of uncompensated care. The Center's status as a provider-based facility also enables it to access the Commonwealth's HSN. Each provider's allowed charges are adjusted to reflect statewide uncompensated care experience. Amounts are paid to HSN based on an estimated percentage of each hospital's net private sector payor charges.

Amounts are withdrawn from the HSN based upon a prospectively determined allowance for uncompensated care based on historical experience of approved free care claims submitted by the Center and the level of funding available in the HSN, based on the number of free care claims submitted and approved for reimbursement by HSN. The Center considered these calculations and accounted for both components of HSN reimbursement accordingly. All other payments, including those for managed care, commercial indemnity and capitated insurance products are negotiated by the Center on an individual basis.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2012 and 2011

Note 6 - Uncompensated Care

Charity Care - As a community provider of healthcare services, the Center maintains programs to promote the overall well-being of the community in which it serves. These include, but are not limited to, human service programs, a 24 hour emergency care center and a number of family-oriented, community outreach initiatives. Each of these critical services is available to all individuals regardless of their ability to pay. Those unable to pay for the care that they receive are eligible to benefit from the Center's charity care policy.

In accordance with the HSN guidelines, the Center maintains records to identify and monitor the volume of patients to whom it provides free care. These records include complete applications for eligible patients and the dates and amounts for all charges furnished under the Center's free care policies.

The Center is the single largest provider of free care services in the Commonwealth's community health center system. The following information identifies the level of charity care provided during the fiscal year ended September 30:

	<u>2012</u>	<u>2011</u>
Charity care charges based on established rates	\$ 23,416,000	\$ 20,125,000
Estimated costs and expenses incurred to provide charity care	\$ 18,436,000	\$ 18,347,535
Equivalent percentage of charity care patients to all patients served	26%	27%

Amounts were paid to, or withdrawn from, HSN based on the relationship between the Center's private sector (i.e., non-governmental) charges and those charges identified as free care. The following detail identifies the total amount due from the HSN along with the amount received as reimbursement for providing free care services during the years ended September 30:

	<u>2012</u>	<u>2011</u>
Health Safety Net care cost recognized	\$ 12,888,000	\$ 11,968,000
Health Safety Net assessment	(354,000)	(109,000)
Net amount received or receivable from the HSN	\$ 12,534,000	\$ 11,859,000

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2012 and 2011

Note 7 - Property and Equipment

Property and equipment were as follows at September 30:

	<u>2012</u>	<u>2011</u>
Buildings and improvements	\$ 32,869,190	\$ 16,100,274
Major movable equipment	13,989,190	10,609,739
Furniture and equipment	4,828,646	716,118
Land and improvements	3,273,515	3,229,795
Construction-in-progress	1,755,938	11,116,012
	<u>56,716,479</u>	<u>41,771,938</u>
Less accumulated depreciation and amortization	<u>20,036,602</u>	<u>17,449,920</u>
	<u>\$ 36,679,877</u>	<u>\$ 24,322,018</u>

Note 8 - Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted was primarily comprised of donor restricted contributions, which are recorded at fair value, and trustee held funds relating to fee reserves for the New Market Tax Credit financing.

The Center received contributions from third party contributors, a healthcare system and the Commonwealth of Massachusetts. Funds from the healthcare system are restricted for the renovation of a facility located in Winthrop, Massachusetts, reserve funds held for the New Market Tax Credit financing transaction and the Commonwealth of Massachusetts funds are restricted for specific purposes relating to the healthcare IT infrastructure as outlined in an Infrastructure and Capacity Building Grant. Assets whose use is limited or restricted was \$1,231,591 and \$859,091 at September 30, 2012 and 2011, respectively.

Note 9 - Cash Surrender Value

The Center has two keyman life insurance policies on each of its key members of management. Upon mortality, the Center is entitled to the face value of the policies. The cash surrender value at September 30, 2012 and 2011 relating to these policies was \$999,783 and \$899,444, respectively. The expense is recorded as life insurance expense and is grouped with employee benefits on the statement of operations.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2012 and 2011

Note 10 - Long-term Debt

Long-term debt consisted of the following at September 30:

	<u>2012</u>	<u>2011</u>
Series 2012 Bonds	\$ 10,400,000	\$ -
QLICI Loan-USB	6,000,000	-
Series 2006 Bonds	5,885,300	6,174,300
QLICI Loan-A1	5,526,000	-
QLICI Loan-MHIC	4,850,000	-
QLICI Loan-UA 1	4,400,000	-
QLICI Loan-UA 2	1,600,000	-
Note payable	21,105	63,316
Bridge loan	-	2,339,427
Total long-term debt	<u>38,682,405</u>	<u>8,577,043</u>
Less current portion	<u>604,797</u>	<u>332,509</u>
Long-term debt, net of current portion	<u>\$ 38,077,608</u>	<u>\$ 8,244,534</u>

In September of 2012, the Center entered into an agreement with the Massachusetts Development Finance Agency ("MDFA") to issue \$10,400,000 of MDFA Revenue Bonds ("Series 2012 Bonds"), East Boston Neighborhood Health Center Issue, Series 2012, that will mature on September 1, 2037. The bonds were issued to finance the construction of a new health center building. Under the terms of a loan and trust agreement (the "Agreement") between the Center, MDFA and TD Bank, as trustee, the Center is required to make monthly payments to the trustee in amounts sufficient to pay the scheduled principal and interest requirements of the Series 2012 Bonds through maturity on September 1, 2037. The annual interest rate on the outstanding Series 2012 Bonds is 2.4%. Collateral for the Series 2012 Bonds consists of the Center's accounts receivable. The Agreement also contains various financial and reporting covenants.

The Center loaned the proceeds the Series 2012 Bonds to East Boston Neighborhood Health Center Investment Fund, LLC. ("Investment Fund"). The Investment Fund then invested in the Qualified Low Income Community Investments CDE #1-#5, LLC ("CDE"). The CDE used the investment to provide financing to TMS in five separate loans, totaling \$22,376,000, for the construction of the new health center.

In February of 2006, the Center entered into an agreement with the Massachusetts Development Finance Agency ("MDFA") to issue \$7,564,000 of MDFA Revenue Bonds ("Series 2006 Bonds"), East Boston Neighborhood Health Center Issue, Series 2006, that will mature on July 1, 2026. The bonds were issued to advance refund the Center's outstanding Massachusetts Industrial Finance Agency ("MIFA") Series 1996 Revenue Bonds.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2012 and 2011

Note 10 - Long-term Debt - Continued

Under the terms of a loan and trust agreement (the "Agreement") between the Center, MDFA and TD Bank, as trustee, the Center is required to make monthly payments to the trustee in amounts sufficient to pay the scheduled principal and interest requirements of the Series 2006 Bonds through maturity on July 1, 2026. The annual interest rate on the outstanding Series 2006 Bonds is the LIBOR rate times sixty nine percent (69%), plus one and two hundred seventy-eight thousandths percent (1.278%). The interest rate was one and forty-five hundredths percent (1.45%) at September 30, 2012 and 2011. Collateral for the Series 2006 Bonds consists of the Center's accounts receivable. The Agreement also contains various financial and reporting covenants.

Concurrent with the Center's loan and trust agreement, the Center entered into a fifteen (15) year interest rate swap agreement (the "Swap") with TD Bank modifying the interest rate under the variable rate instrument to a fixed rate in order to avoid the risk of rising interest rates and to make its borrowing costs more predictable. The interest rate swap is designed as a cash flow hedge and the change in fair value of the hedge is reported in other changes in net assets. The notional amount is \$6,448,600 with a maturity date of February 1, 2021. The fixed rate is 4.825% and the floating rate is 1.437%. Interest expense is recorded at the fixed rate. The swap is outstanding through February 1, 2021, while the debt is outstanding until 2026. The interest rate swap was recorded at fair value as a liability of \$999,316 and \$969,608 as of September 30, 2012 and 2011, respectively.

The swap agreement is exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with the interest rate swap and the level of uncertainty related to changes in the value of the interest rate swap, it is at least reasonably possible that changes in the value of the interest rate swap will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheet.

In January of 2009, the Center acquired digital radiology software and entered into a four (4) year interest-free note payable agreement with the vendor. The Center is required to make monthly payments to the vendor through April of 2013. Monthly payments range from \$1,946 to \$3,517.

In January of 2011, the Center signed an agreement with TD Bank for \$12,000,000 in bridge financing for up to eighteen (18) months to partially finance the property acquisition and construction of a new health center. The interest rate is equal to one percent (1%) plus the Prime Rate. On September 10, 2012 the loan was paid in full.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2012 and 2011

Note 10 - Long-term Debt - Continued

Aggregate annual maturities of long-term debt are as follows over the next five (5) years:

2013	\$ 604,797
2014	631,391
2015	651,910
2016	697,919
2017	720,223
Thereafter	<u>35,376,165</u>
	<u>\$ 38,682,405</u>

Note 11 - Fair Value Measurements

Generally accepted accounting principles for fair value measurements and disclosures provide the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the hierarchy are as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access.
Level 2	Inputs to the valuation methodology include: <ul style="list-style-type: none"> • quoted prices for similar assets or liabilities in active markets; • quoted prices for identical or similar assets or liabilities in inactive markets; • inputs other than quoted prices that are observable for the asset or liability; • inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.
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The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2012 and 2011

Note 11 - Fair Value Measurements - Continued

Following is a description of the valuation methodologies used for assets measured at fair value:

Interest rate swap: Valued using pricing models based on the net present value of estimated future cash flows. The valuation models require inputs including contractual terms, market prices, yield curves and measures of volatility.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents information about the Center's interest rate swap that is measured at fair value on a recurring basis as of September 30, 2012, and indicates the fair value hierarchy of the inputs utilized to determine such fair value:

	September 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest Rate Swap	\$ 999,316	\$ -	\$ 999,316	\$ -

The following table presents information about the Center's interest rate swap that is measured at fair value on a recurring basis as of September 30, 2011, and indicates the fair value hierarchy of the inputs utilized to determine such fair value:

	September 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest Rate Swap	\$ 969,608	\$ -	\$ 969,608	\$ -

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2012 and 2011

Note 12 - Line of Credit

The Center has a working capital line of credit with a bank, expiring February 28, 2013, under which the Center is permitted to borrow up to \$2,000,000. Outstanding amounts on the line bear interest at a rate of prime plus one percent (1%), which was four and one-quarter percent (4.25%) as of September 30, 2012 and 2011, respectively. The note is collateralized by a security interest in the Center's property. No amounts were outstanding on the line of credit at September 30, 2012 and 2011. The agreement is also subject to the same financial and reporting covenants as the Center's bonds.

Note 13 - Net Patient Service Revenue

Net patient service revenue consisted of the following for the years ending September 30:

	<u>2012</u>	<u>%</u>	<u>2011</u>	<u>%</u>
<u>Gross patient service revenue:</u>				
Medicaid	\$ 32,717,849	37%	\$ 26,202,211	35%
Self-pay	28,951,824	33%	25,604,310	35%
Other	14,351,807	16%	11,984,604	16%
Medicare	4,867,685	5%	3,452,954	5%
Blue Cross	4,330,291	5%	3,891,876	5%
Tufts	1,770,723	2%	1,565,883	2%
Harvard Pilgrim	1,519,400	2%	1,328,313	2%
Total gross patient service revenue	<u>88,509,579</u>	<u>100%</u>	<u>74,030,151</u>	<u>100%</u>
Less provision for doubtful accounts	<u>4,195,809</u>	<u>5%</u>	<u>4,157,719</u>	<u>6%</u>
Patient service revenue, net of the provision	<u>84,313,770</u>	<u>95%</u>	<u>69,872,432</u>	<u>94%</u>
<u>Less contractual and free care adjustments:</u>				
Contractual adjustments	27,962,636	31%	19,532,125	26%
Free care adjustments	23,120,351	26%	20,125,737	27%
Free care reimbursements	(12,534,079)	(14%)	(11,859,921)	(16%)
Total contractual and free care adjustments	<u>38,548,908</u>	<u>43%</u>	<u>27,797,941</u>	<u>37%</u>
Net patient service revenue	<u>\$ 45,764,862</u>	<u>52%</u>	<u>\$ 42,074,491</u>	<u>57%</u>

Included in net patient service revenue for the years ended September 30, 2012 and 2011 are changes in prior year estimated settlements of (\$46,000) and \$72,000, respectively.

For uninsured patients that do not qualify for charity care, the Center recognizes revenue on the basis of its standard rates (subject to discounts) for services provided. On the basis of historical experience, a significant portion of the Center's uninsured patients are unable or fail to pay for the services provided. Consequently, the Center records a provision for bad debts related to uninsured patients in the period the services are provided.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2012 and 2011

Note 14 - Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at September 30:

	<u>2012</u>	<u>2011</u>
Construction renovations	\$ 504,428	\$ 500,000
Other	6,387	-
Healthcare IT infrastructure	-	249,680
	<hr/>	<hr/>
Total temporarily restricted net assets	<u>\$ 510,815</u>	<u>\$ 749,680</u>

Note 15 - Grant and Contract Revenue

Grant and contract revenue consisted of the following for the year ended September 30:

	<u>2012</u>	<u>2011</u>
<u>Federal Awards:</u>		
U.S. Department of Health and Human Services:		
Community Health Centers Program (Section 330)	\$ 2,731,236	\$ 2,565,063
Hi-tech Meaningful Use Grant	1,095,813	1,198,125
Early Intervention Services with respect to HIV Disease	343,450	346,142
Increased Demand for Services Grant	-	85,647
	<hr/>	<hr/>
	<u>4,170,499</u>	<u>4,194,977</u>
<u>Commonwealth of Massachusetts:</u>		
Department of Public Health:		
Special Supplemental Food Program for Women, Infants and Children Program	\$ 776,897	\$ 729,922
HIV Counseling	189,145	221,783
Department of Labor -		
Workforce Investment Act Grant	93,831	-
Department of Labor Grant	-	45,441
Boston Public Health Commission:		
Primary Care Services	415,914	422,283
HIV Education and Prevention	123,856	120,424
Community Based Prevention	28,321	-
Strategic Alliance for Health	25,000	35,330
IDEAS Grant	20,724	25,905

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2012 and 2011

Note 15 - Grant and Contract Revenue - Continued

	<u>2012</u>	<u>2011</u>
<u>Commonwealth of Massachusetts - Continued:</u>		
Office of the Attorney General -		
Health Disparities	\$ 124,993	\$ 83,333
Executive Office of Health and Human Services -		
Essential Community Provider	249,680	586,440
Communities Putting People to Work	10,496	6,403
	<u>2,058,857</u>	<u>2,277,264</u>
<u>Other:</u>		
BMC/State HSN Transition Grant	5,926,620	5,926,620
Partners Healthcare System	1,400,000	1,400,000
Boston HealthNet	330,000	330,000
Health Corp Grant	125,742	114,655
Patient Navigator Research Program	28,677	69,354
Creating Healthier Communities	25,000	22,223
Emergency Preparedness Grant	5,000	5,000
Robert Wood Johnson Foundation	-	19,734
	<u>7,841,039</u>	<u>7,887,586</u>
Total grant and contract revenue	<u>\$ 14,070,395</u>	<u>\$ 14,359,827</u>

In 2012, the revenue recognized in relation to Essential Community Provider grants was released from restrictions.

Grants to be used for the purpose of acquiring long-lived assets and reported as a change in unrestricted net assets:

	<u>2012</u>	<u>2011</u>
<u>Federal Awards:</u>		
U.S. Department of Health and Human Services:		
ARRA - Facility Investment Program	<u>\$ 1,781,030</u>	<u>\$ 9,069,969</u>

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2012 and 2011

Note 16 - Other Revenue

Other revenue was comprised of the following for the years ended September 30:

	<u>2012</u>	<u>2011</u>
Staffing revenue	\$ 1,446,860	\$ 1,396,725
Rental income	341,518	315,579
BMC HealthNet enrollment support	174,000	174,000
UMML Courier Contract	171,016	164,421
Coffee shop revenue	155,001	148,027
Other miscellaneous	126,550	253,794
BMC physicians	120,649	134,204
Epic support	87,600	87,600
Additional services	62,700	62,700
Blue Cross Pay for Performance	62,060	47,100
Managed care management fee	52,900	70,046
Medical records	40,709	35,192
TB Clinic	31,394	21,010
Harvard Pilgrim Health Care Pay for Performance	27,485	55,257
Tufts Pay for Performance	19,864	16,686
Donations	19,537	18,827
Peer Psychosocial Support	14,770	-
Interest Income	14,238	21,286
HPHC Quality Grant	10,260	-
NHP PPA Shared Savings	-	39,499
Mass Health Pay for Performance	-	3,382
	<hr/>	<hr/>
Total other revenue	<u>\$ 2,979,111</u>	<u>\$ 3,065,335</u>

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2012 and 2011

Note 17 - Health Center Premium Revenue

Health Center Premium Revenue was comprised of the following for the years ended September 30:

	<u>2012</u>	<u>2011</u>
BMC Risk Sharing	\$ 1,452,589	\$ -
SCO Cap Settlement	554,174	1,707,281
Health Safety Net - PCMH	276,151	152,794
Neighborhood Health Plan - PCMH	151,203	78,261
MassHealth - PCMH	148,696	65,680
Other - PCMH	57,348	18,625
Blue Cross Blue Shield of MA - PCMH	29,585	68,133
BMC Healthnet Plan - PCMH	17,943	44,392
	<hr/>	<hr/>
Total Health Center Premium Revenue	<u>\$ 2,687,689</u>	<u>\$ 2,135,166</u>

Note 18 - Surplus Revenue Retention

The Operational Services Division of the Commonwealth of Massachusetts has promulgated regulations requiring that all not-for-profit entities engaged in the provision of health and social service programs by contract with state agencies be subject to a revenue retention policy. Under this policy, any surplus generated from contracts with the Commonwealth which exceeds five percent (5%) of the current year's Commonwealth revenues, or twenty percent (20%) of total Commonwealth revenues on a cumulative basis, becomes a liability to the Commonwealth.

As of September 30, 2012, the Center is not subject to any recoupment under the provisions of the Commonwealth's Surplus Revenue Retention regulations.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2012 and 2011

Note 19 - Operating Leases

The Center leases various properties under non-cancelable operating leases expiring at different times through August 31, 2017. During the years ended September 30, 2012 and 2011, the Center incurred rent expense of \$1,057,360 and \$1,076,410, respectively. The following are the minimum future lease payments due at September 30:

Year ending September 30:

2013	\$ 1,093,634
2014	789,319
2015	782,184
2016	768,434
2017	731,044
Thereafter	<u>592,689</u>
	<u>\$ 4,757,304</u>

Note 20 - Functional Expenses

The Center provides health care services to residents of its geographical area. Expenses related to providing these services were as follows for the years ended September 30:

	<u>2012</u>	<u>%</u>	<u>2011</u>	<u>%</u>
Health Center services	\$ 50,003,369	53%	\$ 46,099,032	54%
Elder services	23,112,485	25%	20,880,516	24%
General and administrative	<u>20,737,707</u>	<u>22%</u>	<u>18,937,971</u>	<u>22%</u>
		<u>100%</u>		<u>100%</u>
	<u>\$ 93,853,561</u>		<u>\$ 85,917,519</u>	

Note 21 - Retirement Plan

The Center maintains a qualified defined contribution retirement plan under which all full time and certain part-time employees are eligible to participate at the beginning of the quarter that follows their initial start date. The Center provides a matching contribution of sixty-five cents (\$0.65) for every dollar, up to four percent (4%) of eligible employees' salary, as outlined in the plan document. Contributions made by the Center to the plan for the years ended September 30, 2012 and 2011 was \$898,758 and \$781,713, respectively.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2012 and 2011

Note 21 - Retirement Plan - Continued

The Center entered into individual post retirement benefit agreements with certain officers of the Center in 2011. The agreements stipulate that upon retirement, the Center will provide a post retirement life insurance benefit, funded by an existing policy owned by the Center. The agreement stipulates that the Center will maintain the life insurance policies until the Center's cash surrender value lapses. An estimate has been accrued to record the net present value of the estimated annual cost of insurance, with certain key assumptions, such as estimated retirement dates, discount rates, accretion of cash surrender value of the Center's life insurance policies and life expectancy. The accrual at September 30, 2012 and 2011 was \$280,000 and \$211,000, respectively, and is reported as a long term liability entitled post retirement benefit obligations on the consolidated balance sheet.

Note 22 - Medical Malpractice Insurance

The Center is insured for professional liability coverage through the Federal Bureau of Primary Health Care in accordance with the Public Health Service Act. This coverage is provided to the Center through its Section 330 Community Health Center Grant administered by the Health Resources Services Administration of the Department of Health and Human Services. The coverage afforded the Center is comparable to an occurrence-based policy without a monetary cap. The coverage is applicable to the Center, its officers, board members, employees, contracted physicians and other licensed or certified health care practitioners.

Note 23 - Commitments and Contingencies

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretations, as well as regulatory actions unknown or unasserted at this time.

Claims and legal actions are brought against the Center during the normal course of business. Management has taken the necessary steps to mitigate potential losses by obtaining insurance coverage and engaging legal counsel. In the opinion of management, no claims or legal actions have been asserted against the Center which, individually or in the aggregate, will be in excess of its insurance coverage.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2012 and 2011

Note 24 - Related Party Transactions

The Center is affiliated with Boston Medical Center ("BMC") as a licensed, hospital-based community health center. Thus, the Center is reimbursed as an outpatient department of BMC for Medicare, Medicaid and HSN. The Center's Medicare and Health Safety Net reimbursement is paid through BMC. As of September 30, 2012 and 2011, BMC owed the Center \$161,724 and 1,392,588, respectively, which was included in other accounts receivable on the balance sheet.

The Center contracts with BMC for provider services in the Center's Obstetrics and Gynecology ("Ob/Gyn") department and its Family Medicine department. For the years ended September 30, 2012 and 2011, the Center paid BMC \$490,304 and \$335,314, respectively, for OB/GYN services rendered, and owed BMC \$72,298 and \$73,693 as of September 30, 2012 and 2011, respectively, which was included in accounts payable and accrued expenses on the balance sheet.

For the years ended September 30, 2012 and 2011, the Center paid BMC \$1,225,789 and \$807,741, respectively, for Family Medicine provider services. At September 30, 2012 and 2011, the Center owed BMC \$87,236 and \$123,455, respectively, which was included in accounts payable and accrued expenses on the balance sheet. The Center bills and collects directly for outpatient services performed by BMC contracted providers.

The Center has had a long-standing joint hire program with BMC in which selected adult medicine physicians at the Center work at BMC for a specified percentage of time to see patients and provide training to residents. BMC reimburses the Center for the time spent by these physicians. For the years ended September 30, 2012 and 2011, the Center received \$173,549 and \$204,250, respectively, from BMC for this program.

The Center's Elder Service Plan also contracts with BMC for inpatient and outpatient medical services for its participants. For the years ended September 30, 2012 and 2011, the Center incurred expenses from BMC in the amount of \$1,378,203 and \$1,637,721, respectively. At September 30, 2012 and 2011, the Center owed BMC \$293,644 and \$129,803, respectively, which was included in accounts payable and accrued expenses on the balance sheet.

The Center contracts with Evans Medical Foundation ("Evans"), an affiliate of BMC, who provides cardiology services for the Center. For the years ended September 30, 2012 and 2011, the Center paid Evans \$226,767 and \$162,838, respectively, for services rendered. At September 30, 2012 and 2011, the Center owed Evans \$39,524 and \$61,347, respectively, which was included in accounts payable and accrued expenses on the balance sheet.

The Center contracts with Child Health Foundation of Boston, Inc. ("Child Health"), an affiliate of BMC, who provides pediatric services for the Center. For the years ended September 30, 2012 and 2011, the Center paid Child Health \$109,581 and \$87,346, respectively, for services rendered. At September 30, 2012 and 2011, the Center owed Child Health \$9,274 and \$14,574, respectively, which was included in accounts payable and accrued expenses on the balance sheet.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2012 and 2011

Note 24 - Related Party Transactions - Continued

The Center and East Boston Community Development Corporation ("EBCDC") are members of the 26 Sturgis Street Corporation ("Sturgis Street"). The Center owns fifty percent (50%) of Sturgis Street. Sturgis Street provides housing for ESP patients of the Center. The Center's interest (membership) in Sturgis Street is accounted for under the equity method. The Center has entered into a rental agreement to occupy the land and entire building located at 26 Sturgis Street, Winthrop, Massachusetts, at an annual rent of \$399,000. Additionally, the Center shares equally with EBCDC any net income/loss generated by Sturgis Street. This income/(loss) is included in investment income on the statement of operations. A summary of Sturgis Street's assets, liabilities, net assets and results of operations is as follows:

	<u>2012</u>	<u>2011</u>
Total assets	\$ 2,716,480	\$ 2,774,671
Less liabilities	<u>2,291,256</u>	<u>2,426,294</u>
Net assets	<u>\$ 425,224</u>	<u>\$ 348,377</u>
Revenue	<u>\$ 399,000</u>	<u>\$ 399,077</u>
Net income	<u>\$ 76,848</u>	<u>\$ 48,605</u>
Center's interest:		
Share of net income	\$ 38,424	\$ 24,303
Equity at beginning of year	<u>174,189</u>	<u>149,886</u>
Equity at end of year	<u>\$ 212,613</u>	<u>\$ 174,189</u>

In addition, the Center provided a twenty (20) year term loan to Sturgis Street in the amount of \$1,351,084, with interest at six percent (6%), due January 2022. During 2012 and 2011, the Center earned \$10,224 and \$10,928 of interest income, respectively. At September 30, 2012 and 2011, Sturgis Street owed the Center \$162,016 and \$174,544, respectively, for the outstanding loan receivable.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Schedule of Expenditures of Federal Awards

For the year ended September 30, 2012

Federal Grantor	Federal CFDA #	Federal Pass Through Number	Federal Expenditures
<u>U.S. Department of Health and Human Services</u>			
Health Resources Services Administration, Bureau of Primary Health Care:			
Community Health Centers Program	93.224	N/A	\$ 2,731,236
Early Intervention Services with respect to HIV	93.918	N/A	343,450
American Recovery and Reinvestment Act:			
Facility Investment Program	93.703	N/A	1,781,030
Passed Through the Boston Public Health Commission:			
HIV Emergency Relief Projects	93.914	N/A	123,856
Occupational Safety & Health Training Grants	93.263	N/A	25,000
Passed Through Boston Medical Center:			
Cancer Control - Patient Navigator Program	93.399	N/A	28,677
Passed Through the Massachusetts League of Community Health Centers:			
Emergency Preparedness Program	93.889	N/A	5,000
			<u>5,038,249</u>
<u>Corporation for National and Community Service</u>			
Passed Through the National Association of Community Health Centers, Inc.:			
AmeriCorps - Community Health Corps	94.006	N/A	<u>125,742</u>
<u>U.S. Department of Labor</u>			
Passed Through the City of Boston:			
WIA Youth Activities	17.259	N/A	<u>93,981</u>
<u>U.S. Department of Agriculture</u>			
Passed Through the Commonwealth of Massachusetts:			
Department of Public Health:			
Special Supplemental Food Program	10.557	45139007	<u>3,128,595</u>
Total Expenditures of Federal Awards			<u><u>\$ 8,386,567</u></u>

See accompanying notes to financial statements.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Notes to the Schedule of Expenditures of Federal Awards

For the year ended September 30, 2012

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of East Boston Neighborhood Health Center Corporation and Affiliate and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

Note 2 - Special Supplemental Food Program

In fiscal year 2012, the Special Supplemental Food Program for women, infants and children issued \$2,580,649 in vouchers to program participants to be used at local grocery stores. These federal funds, which are not received directly by the Center, are included on the schedule of expenditures of federal awards.



Feeley & Driscoll, P.C.

Certified Public Accountants / Business Consultants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
East Boston Neighborhood Health Center Corporation and Affiliate
East Boston, Massachusetts

We have audited the consolidated financial statements of East Boston Neighborhood Health Center Corporation and Affiliate (the "Organization") as of and for the year ended September 30, 2012, and have issued our report thereon dated January 9, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of East Boston Neighborhood Health Center Corporation and Affiliate is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

East Boston Neighborhood Health Center Corporation and Affiliate
East Boston, Massachusetts

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the consolidated financial statements of East Boston Neighborhood Health Center Corporation and Affiliate are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, the Commonwealth of Massachusetts Executive Office for Administration and Finance Operational Services Division, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Boston, Massachusetts
January 9, 2013

Feeley & Discoll, P.C.



Feeley & Driscoll, P.C.

Certified Public Accountants / Business Consultants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
East Boston Neighborhood Health Center Corporation and Affiliate
East Boston, Massachusetts

Compliance

We have audited East Boston Neighborhood Health Center Corporation and Affiliate's compliance (the "Organization") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of East Boston Neighborhood Health Center Corporation and Affiliate's major federal programs for the year ended September 30, 2012. East Boston Neighborhood Health Center Corporation and Affiliate's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the East Boston Neighborhood Health Center Corporation and Affiliate's management. Our responsibility is to express an opinion on the East Boston Neighborhood Health Center Corporation and Affiliate's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the East Boston Neighborhood Health Center Corporation and Affiliate's compliance with those requirements.

In our opinion, East Boston Neighborhood Health Center Corporation and Affiliate complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

East Boston Neighborhood Health Center Corporation and Affiliate
East Boston, Massachusetts

Internal Control Over Compliance

The management of East Boston Neighborhood Health Center Corporation and Affiliate is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of directors, management, the Commonwealth of Massachusetts Executive Office for Administration and Finance Operational Services Division, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Boston, Massachusetts
January 9, 2013

Feeley & Discollo, P.C.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Schedule of Findings and Questioned Costs

For the year ended September 30, 2012

Section I - Summary of Auditors' Results:

Financial Statements

Type of independent auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? None
- Significant deficiency(s) identified that are not considered to be material weaknesses? None

Non-compliance material to financial statements noted? None

Federal Awards

Internal Control over major programs:

- Material weakness(es) identified? None
- Significant deficiency(s) identified that are not considered to be material weaknesses? None

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Program</u>
93.703	ARRA - Facility Investment Program
93.918	Early Intervention Services with respect to HIV
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Schedule of Findings and Questioned Costs - Continued

For the year ended September 30, 2012

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

Section IV - Follow Up of Prior Year Findings

None.

SUPPLEMENTARY INFORMATION

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Consolidating Balance Sheet

September 30, 2012

	East Boston Neighborhood Health Center	TMS	Eliminations	Consolidated Totals
<u>Assets:</u>				
Current assets:				
Cash and cash equivalents	\$ 5,707,453	\$ -	\$ -	\$ 5,707,453
Patient accounts receivable, net	3,791,308	-	-	3,791,308
Grants and contracts receivable	412,879	-	-	412,879
Other accounts receivable	3,093,568	-	-	3,093,568
Prepaid expenses and other current assets	1,458,542	-	-	1,458,542
Inventory	678,146	-	-	678,146
Total current assets	15,141,896	-	-	15,141,896
Assets whose use is limited or restricted:				
Program deposits	110,376	-	-	110,376
Donor restricted funds	510,815	-	-	510,815
Trustee held funds	-	610,400	-	610,400
Total assets whose use is limited or restricted	621,191	610,400	-	1,231,591
Property and equipment, net	36,679,877	-	-	36,679,877
Other assets:				
Deferred financing costs, net of accumulated amortization of \$111,040 and \$82,564	923,564	755,000	-	1,678,564
Cash surrender value	999,783	-	-	999,783
Note receivable, related party	162,016	-	-	162,016
Prepaid capitalized rent	-	23,846,948	(23,846,948)	-
Note receivable, investment fund	15,990,392	-	-	15,990,392
Investment in Twenty Maverick Square Corporation	2,836,348	-	(2,836,348)	-
Investment in Sturgis Street	212,613	-	-	212,613
Deposits	6,250	-	-	6,250
Total other assets	21,130,966	24,601,948	(26,683,296)	19,049,618
Total assets	\$ 73,573,930	\$ 25,212,348	\$ (26,683,296)	\$ 72,102,982

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Consolidating Balance Sheet - Continued

September 30, 2012

	East Boston Neighborhood Health Center	TMS	Eliminations	Consolidated Totals
<u>Liabilities and Net Assets:</u>				
Current liabilities:				
Current portion of long-term debt	\$ 604,797	\$ -	\$ -	\$ 604,797
Accounts payable and accrued expenses	6,044,825	-	-	6,044,825
Accrued salaries and wages	5,330,114	-	-	5,330,114
Deferred revenue	334,286	-	-	334,286
Due to third parties	461,507	-	-	461,507
Other current liabilities	157,473	-	-	157,473
Total current liabilities	12,933,002	-	-	12,933,002
Long-term liabilities:				
Long-term debt, net of current portion	15,701,608	22,376,000	-	38,077,608
Due to third parties, net of current portion	319,942	-	-	319,942
Interest rate swap	999,316	-	-	999,316
Post retirement benefit obligations	280,000	-	-	280,000
Deferred revenue	23,846,948	-	(23,846,948)	-
Total long-term liabilities	41,147,814	22,376,000	(23,846,948)	39,676,866
Total liabilities	54,080,816	22,376,000	(23,846,948)	52,609,868
Commitments and contingencies				
Net assets:				
Unrestricted net assets	18,982,299	-	-	18,982,299
Temporarily restricted net assets	510,815	2,836,348	(2,836,348)	510,815
Total net assets	19,493,114	2,836,348	(2,836,348)	19,493,114
Total liabilities and net assets	\$ 73,573,930	\$ 25,212,348	\$ (26,683,296)	\$ 72,102,982

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Consolidating Statement of Operations

For the year ended September 30, 2012

	East Boston Neighborhood Health Center	TMS	Eliminations	Consolidated Totals
Revenue and other support:				
Net patient service revenue	\$ 45,764,862	\$ -	\$ -	\$ 45,764,862
Health Center premium revenue	2,687,689	-	-	2,687,689
ESP premium revenue	26,555,002	-	-	26,555,002
Grant and contract revenue	14,070,395	-	-	14,070,395
Other revenue	2,979,111	-	-	2,979,111
Total revenue and other support	<u>92,057,059</u>	<u>-</u>	<u>-</u>	<u>92,057,059</u>
Expenses:				
Salaries and wages	47,203,821	-	-	47,203,821
Employee benefits	11,973,068	-	-	11,973,068
Purchased services	8,194,855	-	-	8,194,855
Medical expenses	7,426,636	-	-	7,426,636
Occupancy, repairs and maintenance	5,965,023	-	-	5,965,023
Institutional	5,161,500	-	-	5,161,500
Administrative and general supplies and expense	3,395,783	-	-	3,395,783
Depreciation and amortization	2,804,939	-	-	2,804,939
Transportation	873,190	-	-	873,190
Insurance	547,860	-	-	547,860
Interest expense	306,886	-	-	306,886
Total expenses	<u>93,853,561</u>	<u>-</u>	<u>-</u>	<u>93,853,561</u>
Loss from operations	<u>(1,796,502)</u>	<u>-</u>	<u>-</u>	<u>(1,796,502)</u>
Non-operating gains:				
Interest	15,765	-	-	15,765
Gain on sale of property and equipment	387	-	-	387
Investment income	200,211	-	-	200,211
Soil remediation costs, net	9,398	-	-	9,398
Total non-operating gains	<u>225,761</u>	<u>-</u>	<u>-</u>	<u>225,761</u>
Deficit of revenue, other support and gains over expenses	<u>(1,570,741)</u>	<u>-</u>	<u>-</u>	<u>(1,570,741)</u>
Loss on interest rate swap	(29,708)			(29,708)
Grant revenue for capital expenditures	1,781,030	-	-	1,781,030
Change in unrestricted net assets	<u>\$ 180,581</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 180,581</u>